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FISCAL IMPACT STATEMENT

LS 6728

BILL NUMBER: HB 1343

NOTE PREPARED: Jan 10, 2007

BILL AMENDED:

SUBJECT: Education Finance and Taxation.

FIRST AUTHOR: Rep. Day

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: *Graduated AGI Tax:* The bill imposes a graduated Adjusted Gross Income (AGI) Tax on the income of individuals, with a maximum rate of 4.4%.

Grants for Master Degrees: The bill authorizes the State Student Assistance Commission to provide grants to persons who: (1) are employed in certain positions by a school corporation or an accredited nonpublic school; and (2) are enrolled in or admitted to an Indiana institution of higher education as students pursuing a master's degree. It provides that a grant must be applied to the person's costs for tuition, textbooks, and regularly assessed fees. It also provides that the maximum amount of an initial grant to an individual is \$5,000 and the maximum amount of a second grant to the individual is \$5,000. The bill makes an appropriation for this grant program for school employees seeking master's degrees.

Prekindergarten Grant Pilot Program: The bill requires the Department of Education to establish a pilot program to provide grants to school corporations and other entities that implement prekindergarten programs. It requires the Education Roundtable to provide recommendations to the Department concerning the criteria to be used in selecting the school corporations for the pilot program. It also includes reporting requirements for participating school corporations and the Department. The bill provides that the pilot program expires July 1, 2014. The bill also makes an appropriation for the prekindergarten pilot program.

Full-Day Kindergarten Grants: The bill makes an appropriation for Full-day Kindergarten Grants.

Effective Date: Upon passage; July 1, 2007; January 1, 2008.

Summary of Net State Impact: The net fiscal impact to the state General Fund from this bill is summarized in the table below.

	FY 2008	FY 2009
Graduated Individual Adjusted Gross Income Tax	\$113.2 M	\$265.1 M
Master's Degree Grant Program	(\$10.0 M)	(\$20.0 M)
Pre-Kindergarten Grant Pilot Program	(\$10.0 M)	(\$20.0 M)
Full-Day Kindergarten Funding	(\$120.0 M)	(\$160.0 M)
Net Impact	(\$26.8 M)	\$65.1 M

The bill also changes the distribution of revenue from the individual Adjusted Gross Income (AGI) Tax to the state General Fund and the Property Tax Replacement Fund (PTRF). This ensures that the incremental revenue generated by the tax rate change is distributed only to the state General Fund. The distribution change results in a net reduction of individual AGI tax revenue to the PTRF of about \$7.6 M in FY 2008 and \$17.8 M in FY2009.

Explanation of State Expenditures: *Grants for Master Degrees:* The bill establishes a program under the State Student Assistance Commission of Indiana (SSACI) to provide grants to the following school corporation or accredited nonpublic school employees pursuing a master's degree: (1) teachers; (2) administrative officers; (3) librarians; (4) licensed or registered nurses; (5) dietitians; (6) mental health providers; and (7) school social workers.

The bill appropriates \$10 M for FY 2008 and \$20 M for FY 2009 for the grant program. The bill establishes the Master's Degree Grant Fund consisting of appropriations and other money for the grant program. The Fund is nonreverting and is administered by SSACI. The bill authorizes SSACI to use up to \$100,000 to administer the grant program. The appropriations would fund about 2,000 grants for FY 2008 and 4,000 grants for FY 2009. There are about 29,000 school employees that would be eligible for grants.

The bill authorizes SSACI to award initial grants of up to \$5,000. The grant recipient must use the grant money for tuition, textbooks, and regularly assessed fees not later than three years after the receiving the grant. The bill also authorizes SSACI to provide a second grant of up to \$5,000 to a previous grant recipient who has successfully completed at least two semesters of a master's degree program. The second grant must be used for the same purposes and within the same time frame as an initial grant.

Prekindergarten Grant Pilot Program: The bill establishes a prekindergarten grant program to be administered by the Department of Education (DOE). The program is available to school corporations and prekindergarten programs accredited by the National Association for the Education of Young Children. Under the bill, the pilot program expires on July 1, 2014.

The bill appropriates \$10 M for FY 2008 and \$20 M for FY 2009 for the pilot program. The DOE may use up to \$100,000 of the appropriation to administer the pilot program. Unexpended appropriations do not revert to the state General Fund, but remain available to the DOE for use in funding the pilot program.

To be eligible for selection by the DOE for a grant under the pilot program a school corporation or accredited

prekindergarten program must apply to the DOE. The application must include at least the following information:

1. An estimate of the number of students likely to participate.
2. A description of the curriculum to be used, which must be consistent with the *Foundations to the Indiana Academic Standards for Young Children* (or successor standards adopted by the DOE).
3. A description of how the curriculum aligns with existing kindergarten through grade 3 programs and standards.
4. An estimate of the cost of the program.

A prekindergarten program can only serve children who are at least 4, but can be either a ½ day or full day program.

Full-Day Kindergarten Grants: The bill appropriates \$120 M for FY 2008 and \$160 M for FY 2009 for full-day kindergarten grants. The bill requires grants to be provided to school corporations that apply to the DOE for funding of full-day kindergarten. The maximum grant a school corporation may receive is equal to the corporation's full-day kindergarten enrollment for a year multiplied by the per student amount computed by dividing that year's appropriation by the full-day kindergarten enrollment of all school corporations receiving a grant for that year. The bill requires school corporations receiving grants to provide the DOE with a financial report of how the grant funds were spent. Any unspent grant funds that a school corporation has at the end of the 2007-2009 biennium must be returned to the DOE. The bill does not provide for any funding to the DOE for administrative costs of the grant program. The January 1, 2007, state vacant position report indicates that the DOE has 88 vacant full-time positions.

Department of State Revenue (DOR): The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the new graduated individual income tax rate structure. The DOR's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Graduated AGI Tax:* The bill replaces the current individual Adjusted Gross Income (AGI) tax rate equal to 3.4% on all taxable AGI with a graduated tax rate structure beginning in tax year 2008. The graduated tax rate structure is presented in the table below.

Taxable AGI Range	Tax Rate
Less than \$75,000	3.4%
\$75,000 to less than \$100,000	3.6%
\$100,000 and above	4.4%

The bill also changes the current law distribution of revenue from the individual AGI Tax to the state General Fund and the Property Tax Replacement Fund (PTRF). This is done to ensure that all of the incremental revenue generated by the tax rate changes is distributed only to the state General Fund. The distribution percentages are changed beginning in 2008, with the state General Fund distribution increased from 86% to 87% and the PTRF distribution reduced from 14% to 13%. The combination of the tax rate and distribution changes is estimated to increase revenue to the state General Fund by about \$113.2 M in FY 2008 and \$265.1 M in FY 2009. The distribution change is estimated to reduce revenue to the PTRF by about

\$7.6 M in FY 2008 and \$17.8 M in FY 2009.

The revenue estimates are based on the average change in tax liability observed in simulations conducted with data from individual income tax records from 1996 to 2004.. The graduated rate structure is estimated to increase revenue by about 4.95% above the current base. This growth rate is applied to the Revenue Technical Committee's forecast (published December 14, 2006) for FY 2008 and FY 2009. The impact of the tax year 2008 change is expected to affect FY 2008 revenue due to increased monthly withholdings and quarterly estimated payments during the January-June, 2008 period.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: State Student Assistance Commission, Department of Education, Department of State Revenue.

Local Agencies Affected: Local schools and preschool providers.

Information Sources: OFMA Income Tax databases, 1996-2004; State Revenue Forecast (December 14, 2006); Department of Education databases.

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